

U10B00
Maryland Environmental Service

Program Description

The Maryland Environmental Service (MES) is an instrumentality of the State. MES provides technical services including engineering, design, financing, construction, and operation of water supply and wastewater treatment facilities. MES also provides similar services in the area of hazardous and solid waste facility management, including sanitary landfills, incinerators, and resource recovery facilities. Additional services offered include sludge and dredged materials management, recycling and marketing of end products, regulatory monitoring, and renewable energy needs servicing. MES operates on a fee-for-service (FFS) basis. Four goals guide MES’s activities: improving the environment; improving infrastructure to convey and treat water and wastewater in the State; working more safely; and providing excellent customer service and satisfaction.

Operating Budget Summary

Maryland Environmental Service
Fiscal 2017-2019
(\$ in Thousands)

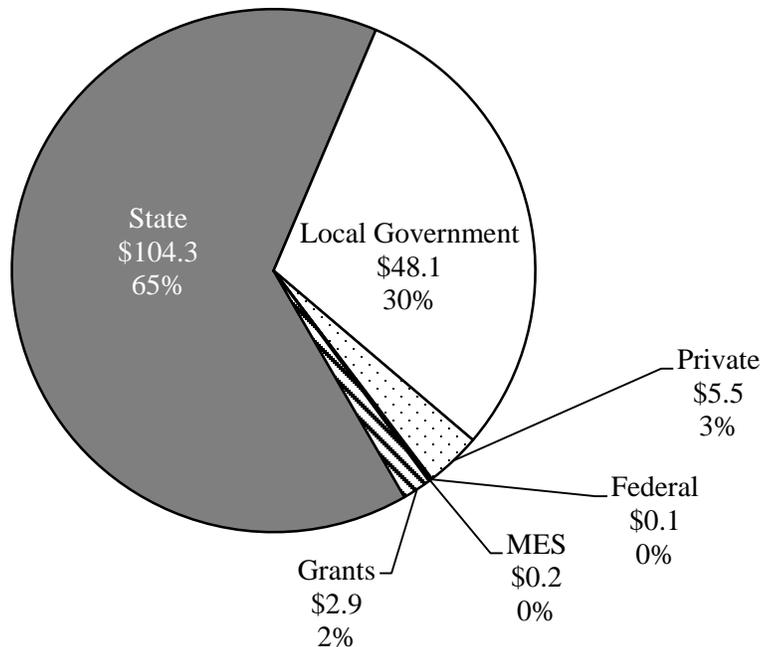
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Change</u> <u>2018-2019</u>
Total Assets	\$88,907	\$85,412	\$91,767	\$6,355
Total Liabilities	62,671	57,338	62,010	4,672
Total Net Assets	\$26,236	\$28,074	\$29,757	\$1,683
Total Revenue	\$165,784	\$155,299	\$161,121	\$5,822
Total Expenditures	163,207	152,868	159,699	6,831
Operating Income	\$2,577	\$2,431	\$1,422	-\$1,009

- Between fiscal 2018 and 2019, MES’s net operating income decreased by \$1.0 million for all operations excluding the Midshore Regional Landfill Private Purpose Trust Fund. According to MES’s audited financial statements, the reasons for the decrease include increased personnel costs, including benefit costs, and upgrades to information technology (IT) hardware and software programs for agencywide efficiency enhancement.

MES’s Fiscal 2019 Financial Position

MES breaks down its revenue by fund sources and type of business activity. **Exhibit 1** provides an overview of fiscal 2019 revenue by fund source and shows that approximately 95% of MES’s revenue comes from State and local government. In terms of its relationship with the State, MES has two arrangements: (1) reimbursable projects are related to Executive Order 01.01.1971.11 and the Board of Public Works directive that MES operate wastewater and drinking water plants for State agencies; and (2) contractual projects for which MES has a contract with a State agency to do the work. Between fiscal 2018 and 2019, MES’s State government revenues increased by \$6.7 million, and local government revenues decreased by \$3.0 million. The State revenues increased due to the Cox Creek Expansion Projects, which was offset partially by decreases due to completion of fiscal 2018 projects including Dundalk Marine Terminal Dredging, Fairfield Terminal Wet Basin Filling, and Kurt Iron Slip cut-off dike construction. In fiscal 2018, local government revenues decreased due to the completion of a project for Prince George’s County implementing an organic waste composting project using a Mega Heap Bunker System – an organic waste composting system installed by Sustainable Generation at the Prince George’s County Western Branch facility.

Exhibit 1
MES Revenue by Fund Source
Fiscal 2019
(\$ in Millions)

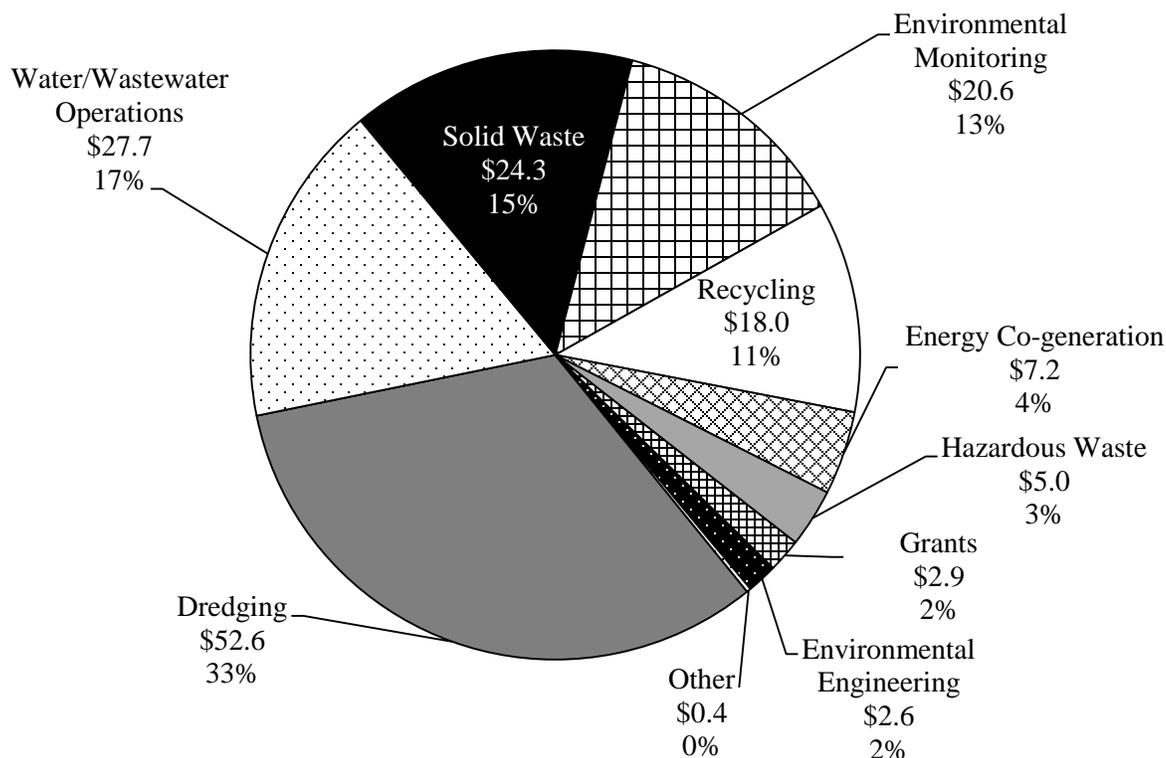


MES: Maryland Environmental Service

Source: Maryland Environmental Service

Exhibit 2 provides an overview of fiscal 2019 revenue by business activity type and shows that the largest three categories are dredging, water/wastewater operations, and solid waste. These three business activity types account for 64.9% of MES’s revenue. In recent years, MES has entered the market for energy efficiency and renewable energy.

Exhibit 2
MES Revenue by Business Activity Type
Fiscal 2019
(\$ in Millions)



MES: Maryland Environmental Service

Source: Maryland Environmental Service

Financial Changes

MES’s operating income decreased by \$1.0 million between fiscal 2018 and 2019 because of increased personnel costs, including benefit costs, and upgrades to IT hardware and software programs for agencywide efficiency enhancement. MES’s revenues increased by \$5.8 million between fiscal 2018 and 2019 as shown by the revenue by business type activity in **Exhibit 3**. This reflects the following.

Exhibit 3
Revenues by Business Type Activity
Fiscal 2015-2019
(\$ in Thousands)

<u>Business Type Activity</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Change 2017-2018</u>	<u>Change 2018-2019</u>
Environmental Dredging and Restoration	\$53,325	\$41,666	\$50,742	\$44,243	\$52,584	-\$6,499	\$8,341
Recycling	14,295	16,001	16,834	15,714	17,989	-1,120	2,275
Environmental Monitoring	14,596	16,499	17,580	19,384	20,584	1,804	1,200
Grants	2,663	2,061	2,092	1,699	2,867	-393	1,168
Environmental Engineering	1,908	2,735	2,263	2,398	2,594	135	196
Hazardous Waste Treatment	5,500	4,819	4,766	4,837	4,994	71	157
Energy Co-generation	7,891	6,769	6,887	7,162	7,155	275	-7
Other	510	408	395	506	361	111	-145
Water/Wastewater Operations	24,196	33,809	30,216	29,926	27,677	-290	-2,249
Solid Waste Management	16,289	34,738	34,009	29,430	24,316	-4,579	-5,114
Total Revenue	\$141,173	\$159,505	\$165,784	\$155,299	\$161,121	-\$10,485	\$5,822

Source: Maryland Environmental Service

- **Environmental Dredging and Restoration:** An increase of \$8.3 million due to the Cox Creek Expansion that was comprised of three large construction projects in fiscal 2019: operations complex relocation; base dike widening; and upland demolition and remediation that were offset partially by substantial completion of projects in fiscal 2018 including the Dundalk Marine Terminal Dredging, the Fairfield Marine Terminal Wet Basin Filling, and construction of two trash interceptors and the Masonville Kurt Iron Slip cut-off dike.
- **Recycling:** An increase of \$2.3 million due to a new capital project to expand food waste processing capacity at Prince George’s County’s Western Branch Composting Facility and a new project with the Maryland Department of the Environment for scrap tire disposal.
- **Water/Wastewater Operations:** A decrease of \$2.2 million for water/wastewater operations due to the completion of construction activities at the Maryland Correctional Institution (MCI), Freedom, and Rocky Gap.
- **Solid Waste Management:** A decrease of \$5.1 million due to the completion of the Mega Heap Bunker System for Prince George’s County.

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As shown in **Exhibit 4** – expenses by object – MES’s overall operating expenses increase by \$8.5 million between fiscal 2019 and 2020 but are anticipated to increase by only \$5.5 million between fiscal 2020 and 2021. The major changes between fiscal 2019 and 2020 are increases of \$1.9 million in salaries, wages, and fringe benefits; \$1.4 million in technical and special fees; \$1.3 million in contractual services; and \$1.0 million in motor vehicle operation and maintenance. The major changes between fiscal 2020 and 2021 are increases of \$1.6 million in salaries, wages, and fringe benefits; \$1.1 million in contractual services; and \$0.8 million in land and structures.

Exhibit 4
Operating Expenses
Fiscal 2019-2021

<u>Operating Expense</u>	<u>Expenditures</u> <u>2019</u>	<u>Legislative</u> <u>Appropriation</u> <u>2020</u>	<u>Allowance</u> <u>2021</u>	<u>Change</u> <u>2019-2020</u>	<u>Change</u> <u>2020-2021</u>
Salaries, Wages, and Fringe Benefits	\$53,814,000	\$55,697,000	\$57,321,657	\$1,883,000	\$1,624,657
Technical and Special Fees	10,093,000	11,500,000	11,903,000	1,407,000	403,000
Communication	422,000	500,000	518,000	78,000	18,000
Travel	139,000	300,000	311,000	161,000	11,000
Fuel and Utilities	7,452,000	8,000,000	8,280,000	548,000	280,000
Motor Vehicle Operation and Maintenance	4,000,000	5,000,000	5,175,000	1,000,000	175,000
Contractual Services	29,154,000	30,500,000	31,568,000	1,346,000	1,068,000
Supplies and Materials	9,253,000	10,000,000	10,350,000	747,000	350,000
Equipment – Replacement	5,311,000	5,500,000	5,693,000	189,000	193,000
Fixed Charges	14,409,000	15,000,000	15,525,000	591,000	525,000
Land and Structures	22,407,000	23,000,000	23,805,000	593,000	805,000
Total Operating Expenses	\$156,454,000	\$164,997,000	\$170,449,657	\$8,543,000	\$5,452,657

Source: Department of Budget and Management

Types of MES Operations

MES’s business type activities can generally be viewed as FFS and revenue-generating activities. Revenue-generating activities can be further divided into products and services. Before the sale of the scrap tire recycling facility in January 2008, MES sold recycled crumb rubber products. Currently, on behalf of its clients, MES produces two products – Leafgro and Leafgro Gold. Leafgro – composted yard waste such as grass clippings and leaves – and Leafgro Gold – composted food residual and yard waste – are produced under the contract that MES has to operate composting facilities for Montgomery and Prince George’s counties; thus, the two counties receive the revenues from sales.

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However, MES continues to perform three revenue generating services: yard waste grinding; waste oil collection; and geospatial and engineering services.

Exhibit 5 reflects MES’s revenue generating services. As can be seen, expenses exceeded revenues for both used oil collection and yard waste grinding in fiscal 2019. MES notes that the operating loss for used oil collection in fiscal 2019 reflects limited usage of the used oil program since counties are operating their own programs; drivers are not changing their own oil; and, in general, cars are needing less oil. The operating loss for yard waste grinding in part reflects one-time increased revenues in fiscal 2018 due to post-tornado clean-up activities in Queen Anne’s County and the need for major repairs in fiscal 2019 that kept the tub grinder out of service. The operating gain for geospatial and engineering services – provided for various environmental planning and monitoring activities – reflects the ongoing profitability of this revenue generating service, although there is a 16.8% increase in costs relative to fiscal 2018 due to personnel and equipment costs.

Exhibit 5
Revenue Generating Services
Fiscal 2013-2019
(\$ in Thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Difference</u> <u>2018-2019</u>
Used Oil Collection								
Revenue	\$721	\$753	\$585	\$218	\$147	\$120	\$86	-\$34
Expense	-368	-338	-301	-242	-80	-126	-87	39
Total	\$353	\$415	\$284	-\$24	\$67	-\$6	-\$1	\$5
Geospatial and Engineering Services								
Revenue	\$2,878	\$3,447	\$4,549	\$4,546	\$4,611	\$5,291	\$6,056	\$765
Expense	-3,137	-3,404	-4,600	-4,753	-4,460	-5,024	-5,869	-845
Total	-\$259	\$43	-\$51	-\$207	\$151	\$267	\$187	-\$80
Yard Waste Grinding (Tub Grinding)								
Revenue	\$510	\$347	\$516	\$570	\$612	\$751	\$656	-\$95
Expense	-378	-282	-345	-498	-570	-672	-700	-28
Total	\$132	\$65	\$171	\$72	\$42	\$79	-\$44	-\$123

Source: Maryland Environmental Service

Fiscal 2021 Overview of Agency Spending

The proposed budget discussion focuses on the State reimbursable projects portion of MES's budget. As shown in **Exhibit 6**, there is an adjustment to MES's fiscal 2021 reimbursable project charges to State agencies. This adjustment reflects the fact that the fiscal 2021 allowance inadvertently excluded a portion of the funding for the Department of Public Safety and Correctional Services (DPSCS) – Dorsey Run Correctional Facility water and wastewater treatment project. This funding is already reflected in the DPSCS budget. Therefore, MES's reimbursable project charges to State agencies increase from \$29,360,922 in fiscal 2020 to \$29,937,792 in the fiscal 2021 adjusted allowance, an increase of \$576,870, or 2.0%. The two largest changes between fiscal 2020 and the fiscal 2021 adjusted allowance are for salaries, wages, and fringe benefits and contractual services.

Exhibit 7 shows specific project changes between fiscal 2020 and the fiscal 2021 adjusted allowance. The main change is the \$518,924 funding increase for the DPSCS – Dorsey Run Correctional Facility water and wastewater project. However, this funding increase does not reflect the true change for the buildings that comprise the Dorsey Run complex. The Dorsey Run complex includes the following projects and associated funding changes between fiscal 2020 and the fiscal 2021 adjusted allowance: DPSCS – Dorsey Run Correctional Facility (\$518,924); DPSCS – MCI of Women – Jessup – (\$70,484); Maryland Department of Health – Clifton T. Perkins Hospital Center (-\$89,329); DPSCS – Patuxent Institution (-\$141,726); and DPSCS – MCI – Jessup (-\$267,067). The overall change for these five facilities, which function as part of one complex, is an increase of \$91,286.

Exhibit 6
Reimbursable Projects Operating Expenses
Fiscal 2019-2021 Adj.

<u>Operating Expense</u>	<u>Expenditures</u> <u>2019</u>	<u>Appropriation</u> <u>2020</u>	<u>Allowance</u> <u>2021</u>	<u>Adjustment</u> <u>2021</u>	<u>Adjusted</u> <u>Allowance</u> <u>2021</u>	<u>Change</u> <u>2019-2020</u>	<u>Change</u> <u>2020-2021 Adj.</u>
Salaries, Wages, and Fringe Benefits	\$14,806,293	\$17,125,472	\$16,732,880	\$600,000	\$17,332,880	\$2,319,179	\$207,408
Technical and Special Fees	486,208	511,023	517,487		517,487	24,815	6,464
Communication	113,125	117,557	128,295		128,295	4,432	10,738
Travel	3,420	19,296	17,690		17,690	15,876	-1,606
Fuel and Utilities	6,328,456	7,006,570	7,020,668		7,020,668	678,114	14,098
Equipment Operation and Maintenance	446,264	557,986	587,416		587,416	111,722	29,430
Contractual Services	1,469,139	1,855,951	2,127,975		2,127,975	386,812	272,024
Materials and Supplies	2,145,207	2,167,067	2,106,407	98,974	2,205,381	21,860	38,314
Total Operating Expenses	\$25,798,112	\$29,360,922	\$29,238,818	\$698,974	\$29,937,792	\$3,562,810	\$576,870

Note: The fiscal 2021 allowance inadvertently excluded a portion of the funding for the Department of Public Safety and Correctional Services (DPSCS) – Dorsey Run Correctional Facility water and wastewater treatment project. This funding is already reflected in the DPSCS budget.

Source: Maryland Environmental Service

Exhibit 7
Reimbursable Projects
Fiscal 2021 Allowance Data

Facilities	Expenditures 2019	Allocation 2020	Allowance 2021	Adjustment 2021	Adjusted Allowance 2021	Change 2019-2020	Change Adjusted 2020-2021
DPSCS – Dorsey Run Correctional Facility	\$1,728,462	\$1,908,326	\$1,728,276	\$698,974	\$2,427,250	\$179,864	\$518,924
DPSCS – ECI Co-Generation Facility	7,120,861	8,172,069	8,399,543	0	8,399,543	1,051,208	227,474
DPSCS – MCI – Hagerstown: Power Generation	3,980,423	4,671,156	4,859,783	0	4,859,783	690,733	188,627
DJS – Cheltenham Youth Detention Center	530,989	539,256	643,588	0	643,588	8,267	104,332
DPSCS – MCI of Women – Jessup	261,016	249,783	320,267	0	320,267	-11,233	70,484
DPSCS – Jessup Steam Plant Maryland Department of Veterans Affairs	1,101,898	1,231,645	1,290,196	0	1,290,196	129,747	58,551
DPSCS – MCI – Hagerstown DJS – Statewide Youth Centers	585,826	579,301	635,194	0	635,194	-6,525	55,893
DPSCS – MCI – Hagerstown DJS – Statewide Youth Centers	1,734,709	1,884,669	1,921,130	0	1,921,130	149,960	36,461
MDH – Crownsville Hospital Center	397,668	452,306	483,287	0	483,287	54,638	30,981
DPSCS – WCI	520,004	631,646	661,377	0	661,377	111,642	29,731
DJS – Victor Cullen Center	192,645	177,273	203,040	0	203,040	-15,372	25,767
DNR – Fishing and Boating Services	330,338	345,406	354,089	0	354,089	15,068	8,683
UMCES – Horn Point Military Department Maryland Aviation Administration	59,269	69,473	77,716	0	77,716	10,204	8,243
UMCES – Horn Point Military Department Maryland Aviation Administration	76,433	83,667	88,566	0	88,566	7,234	4,899
St. Mary’s College of Maryland	256,804	252,205	256,104	0	256,104	-4,599	3,899
	24,512	24,642	28,151	0	28,151	130	3,509
	70,805	79,193	80,562	0	80,562	8,388	1,369

Facilities	Expenditures <u>2019</u>	Allocation <u>2020</u>	Allowance <u>2021</u>	Adjustment <u>2021</u>	Adjusted Allowance <u>2021</u>	Change <u>2019-2020</u>	Change Adjusted <u>2020-2021</u>
MDH – Springfield Hospital Center	507,046	488,652	479,026	0	479,026	-18,394	-9,626
DPSCS – ECI	2,028,055	2,605,484	2,588,783	0	2,588,783	577,429	-16,701
MDH – Clifton T. Perkins Hospital Center	213,559	204,368	115,039	0	115,039	-9,191	-89,329
DPSCS – Patuxent Institution	545,761	522,273	380,547	0	380,547	-23,488	-141,726
DPSCS – MCI – Jessup	640,676	613,103	346,036	0	346,036	-27,573	-267,067
DNR – Maryland Park Service	2,890,353	3,575,026	3,298,518	0	3,298,518	684,673	-276,508
Total	\$25,798,112	\$29,360,922	\$29,238,818	\$698,974	\$29,937,792	\$3,562,810	\$576,870

DJS: Department of Juvenile Services
DNR: Department of Natural Resources
DPSCS: Department of Public Safety and Correctional Services
ECI: Eastern Correctional Institution
MCI: Maryland Correctional Institution
MDH: Maryland Department of Health
UMCES: University of Maryland Center for Environmental Science
WCI: Western Correctional Institution

Note: The fiscal 2021 allowance inadvertently excluded a portion of the funding for the DPSCS – Dorsey Run Correctional Facility water and wastewater treatment project. This funding is already reflected in the DPSCS budget.

Source: Governor’s Fiscal 2021 Budget Books; Maryland Environmental Service

Personnel Data

	<u>FY 19</u> <u>Actual</u>	<u>FY 20</u> <u>Working</u>	<u>FY 21</u> <u>Allowance</u>	<u>FY 20-21</u> <u>Change</u>
Regular Positions	845.00	845.00	845.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	845.00	845.00	845.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/19	n/a	n/a
Vacancies Above (Below) Turnover	n/a	

- Regular positions remain unchanged in the fiscal 2021 allowance. This reflects no change in anticipated needs.

Key Observations

1. MES Funding Statement Reflects Agency Priorities

The 2019 *Joint Chairmen's Report* included committee narrative requesting an MES funding statement including information on MES's undesignated unrestricted net assets, overhead rate, project reserve fund status, and justification for reimbursable project funding changes. This report request was in the context of a \$3.6 million, or 13.9%, funding increase between fiscal 2019 and 2020 for State reimbursable projects. The submitted report and prior year information reflect the following.

- ***Undesignated Unrestricted Net Assets:*** MES considers its undesignated unrestricted net assets to be its fund balance. MES' unrestricted undesignated net position increased to \$3.4 million in fiscal 2017 and \$4.8 million in fiscal 2018 before decreasing to \$4.0 million in fiscal 2019. The fiscal 2020 estimate for undesignated unrestricted net assets is \$3.3 million. MES used a portion of its undesignated unrestricted net assets in fiscal 2019 to pay for the implementation of the Workday human resources software and for building expansion costs at its Millersville headquarters in order to accommodate staff growth and to aggregate staff that are spread among several buildings including leased space. The building expansion is anticipated to be completed in calendar 2023. In addition, MES is using its undesignated unrestricted net assets to expand its program providing health care benefits to retirees beginning in January 2019 since MES retirees do not participate in the Maryland State Retirement and Pension System. Overall, MES notes that its fiscal 2019 undesignated unrestricted net assets amount of \$4.0 million is approximately 2.5% of its \$156.4 million operating budget. For comparison purposes, the State's Rainy Day Fund is required to maintain a 6% balance relative to the State's operating budget.
- ***Overhead Rate:*** An informal goal reflected by MES in the past is to reduce the overhead rate – general administrative rate – charged to State agencies and other clients as a result of increasing MES's client base, thus spreading overhead over more clients. In fact, overhead rates have trended down in recent years, with the exception of fiscal 2021, as follows: fiscal 2015 – 45.29%; fiscal 2016 – 44.75%; fiscal 2017 – 44.54%; fiscal 2018 – 43.60%; fiscal 2019 – 44.98%; fiscal 2020 – 43.06%; and fiscal 2021 – 46.56%. MES notes that salary and other personnel increases required to fill vacant positions have resulted in the increased overhead rate in fiscal 2021. However, MES notes that the group rate charged for water and wastewater projects, which comprise the majority of State reimbursable projects, has actually decreased from 14.62% in fiscal 2015 to 5.59% in fiscal 2021 due to efficiencies.
- ***Project Reserve Fund Status:*** MES has three project reserve funds: the State Reimbursable Project Contingency Fund; the Eastern Correctional Institution Steam Turbine Contingency Fund; and the Department of Natural Resources Project Contingency Fund. The fiscal 2019 status of these three project reserve funds is shown in **Exhibit 8**. The \$267,011 shown as funding returned from the State Reimbursable Project Contingency Fund reflects the funding that MES overbudgeted in fiscal 2018 for the DPSCS – Jessup Steam Plant project. MES

subsequently credited this amount to the General Fund from the State Reimbursable Project Contingency Fund. MES notes that it intends to use funding from the Eastern Correctional Institution (ECI) Steam Turbine Contingency Fund in fiscal 2020 and 2021 to overhaul the unit 1 turbine and generator. The funding estimate for the project is \$1,129,866, which will thus reduce the ECI Steam Turbine Contingency Fund balance substantially.

Exhibit 8
General Fund Unearned Revenue Amount
Fiscal 2019

<u>Project Reserve Fund Activity</u>	<u>Amount</u>	<u>Cap</u>	<u>Difference</u>
State Reimbursable Project Contingency Fund			
Beginning Balance (June 30, 2018)	\$756,780		
Approved Retainage	0		
Interest Earned	13,450		
Funding Returned	-267,011		
Current Balance	\$503,219	\$1,000,000	-\$496,781
ECI Correctional Institution Steam Turbine Contingency Fund			
Beginning Balance (June 30, 2018)	\$1,202,666		
Approved Retainage	0		
Interest Earned	0		
Current Balance	\$1,202,666	\$1,500,000	-\$297,334
DNR Project Contingency Fund			
Beginning Balance (June 30, 2018)	\$3,408		
Approved Additions	0		
Funds Used	0		
Interest Earned	0		
Current Balance	\$3,408	\$500,000	-\$496,592

DNR: Department of Natural Resources

ECI: Eastern Correctional Institution

Source: Maryland Environmental Service; Department of Legislative Services

- **Reimbursable Project Funding Changes:** MES notes that State reimbursable project cost increases in recent years are attributable to fuel oil, wood chips, and replacement equipment at ECI and MCI. In addition, MES notes that it uses all available knowledge to budget for State projects and that it returns unused State reimbursable project funds to its State partners.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Maryland Environmental Service Funding Statement: The committees request that the Maryland Environmental Service (MES) provide a report on the following:

- undesignated unrestricted net assets for fiscal 2020, 2021, and 2022 estimated and an explanation for any changes between each of these years, including revenues credited to and expenditures debited from the net assets;
- overhead rate for fiscal 2020, 2021, and 2022 estimated;
- project reserve fund status by beginning balance, approved retainage, funds used, and interest earned for fiscal 2020 and 2021 for the State Reimbursable Project Contingency Fund, the Eastern Correctional Institution Steam Turbine Contingency Fund, and the Department of Natural Resources Project Contingency Fund; and
- justification for the changes in reimbursable project funding for fiscal 2020, 2021, and 2022 estimated based on a discussion about how MES’s undesignated unrestricted net assets allow for reducing MES’s overhead rate for State reimbursable projects and how project reserve funds are available for any under budgeting.

The report should be submitted in coordination with the Department of Budget and Management (DBM) with the fiscal 2022 budget submission.

Information Request	Authors	Due Date
MES funding statement	MES DBM	Fiscal 2022 budget submission

Appendix 1
2019 Joint Chairmen’s Report Responses from Agency

The 2019 *Joint Chairmen’s Report* (JCR) requested that the Maryland Environmental Service (MES) prepare one report. An electronic copy of the full JCR response can be found on the Department of Legislative Services Library website.

- ***MES Funding Statement Reflects Agency Priorities:*** The 2019 JCR included committee narrative requesting an MES funding statement. The funding statement was requested to include information on MES’s undesignated unrestricted net assets, overhead rate, project reserve fund status, and justification for reimbursable project funding changes. Further discussion of this data can be found in Key Observation 1 of this analysis.

**Appendix 2
Audit Findings**

Audit Period for Last Audit:	March 24, 2015 – March 10, 2019
Issue Date:	January 2020
Number of Findings:	6
Number of Repeat Findings:	2
% of Repeat Findings:	33.3%
Rating: (if applicable)	n/a

Finding 1: The Maryland Environmental Service (MES) lacked formal written agreements with State agencies for 69 facilities to clarify responsibilities of services it performed, as required.

Finding 2: MES obtained services from two vendors totaling \$8.4 million using a sole source procurement method without necessary MES board approval to waive its competitive procurement procedures. Furthermore, MES did not have a written contract with one of the vendors.

Finding 3: MES had not established effective controls over the processing of invoice payments.

Finding 4: **MES check receipt and deposit procedures were inadequate and duties related to cash receipts and accounts receivable were not properly segregated.**

Finding 5: **Human resources and payroll user capabilities were not adequately restricted, and independent documented reviews of personnel and payroll transactions were not performed.**

Finding 6: MES did not ensure that user access capabilities assigned to employees on its financial management systems were adequately restricted.

*Bold denotes item repeated in full or part from preceding audit report.

**Appendix 3
Object/Fund Difference Report
Maryland Environmental Service**

<u>Object/Fund</u>	<u>FY 19 Actual</u>	<u>FY 20 Working Appropriation</u>	<u>FY 21 Allowance</u>	<u>FY 20 - FY 21 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	845.00	845.00	845.00	0.00	0%
Total Positions	845.00	845.00	845.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 53,814,000	\$ 55,697,000	\$ 57,321,657	\$ 1,624,657	2.9%
02 Technical and Spec. Fees	10,093,000	11,500,000	11,903,000	403,000	3.5%
03 Communication	422,000	500,000	518,000	18,000	3.6%
04 Travel	139,000	300,000	311,000	11,000	3.7%
06 Fuel and Utilities	7,452,000	8,000,000	8,280,000	280,000	3.5%
07 Motor Vehicles	4,000,000	5,000,000	5,175,000	175,000	3.5%
08 Contractual Services	29,154,000	30,500,000	31,568,000	1,068,000	3.5%
09 Supplies and Materials	9,253,000	10,000,000	10,350,000	350,000	3.5%
10 Equipment – Replacement	5,311,000	5,500,000	5,693,000	193,000	3.5%
13 Fixed Charges	14,409,000	15,000,000	15,525,000	525,000	3.5%
14 Land and Structures	22,407,000	23,000,000	23,805,000	805,000	3.5%
Total Objects	\$ 156,454,000	\$ 164,997,000	\$ 170,449,657	\$ 5,452,657	3.3%
Funds					
07 Nonbudgeted Fund	\$ 156,454,000	\$ 164,997,000	\$ 170,449,657	\$ 5,452,657	3.3%
Total Funds	\$ 156,454,000	\$ 164,997,000	\$ 170,449,657	\$ 5,452,657	3.3%

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.